

November 25, 2003

To the Honorable Mayor, Members of City Council, and Citizens of the City of Williamsburg:

The Comprehensive Annual Financial Report (CAFR) of the City of Williamsburg, Virginia for the fiscal year ended June 30, 2003, is submitted herewith in accordance with Section 15.2-2511 of the Code of Virginia. This report was prepared by the City's Department of Finance. This report is designed in a manner to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs are included.

This report meets all governmental accounting and financial reporting requirements of statements, interpretations and technical bulletins issued by the Governmental Accounting Standards Board (GASB). The GASB issues new financial reporting guidelines on a continual basis, covering a wide range of topics for financial statement presentation. This report complies with all recent releases of the GASB, and will continue to do so in order to comply with all applicable financial reporting requirements. This report is also being issued for the second time in full compliance with the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The City

The City of Williamsburg was established by the General Assembly of the Commonwealth of Virginia in 1699 and was incorporated by British Royal Charter in 1722. Today, it operates under the Council-Manager form of government substantially as established in the City Charter of 1932, and as an independent city under the Constitution and laws of the Commonwealth of Virginia. Policy-making and legislative authority are vested in a governing council consisting of the Mayor and four other members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council members serve four-year staggered terms. The Mayor is chosen from among City Council members every two years.

Williamsburg encompasses some nine square miles located between the James and York Rivers on the Virginia Peninsula in Southeastern Virginia. Per the 2000 Census, Williamsburg has a population of 11,998.

The City is home to the College of William & Mary, established in 1693. The Colonial Williamsburg Foundation operates a living museum recreating the days when Williamsburg was the Capital of Colonial Virginia, 1699 to 1780.

The financial reporting entity includes all the funds and account groups of the City of Williamsburg. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As such, the City has no component units (legally separate entities for which the City as primary government is financially accountable).

The City provides the full range of municipal services contemplated by Charter on a continuing basis. These services include public safety, (police, fire and emergency medical services), public works, (street construction and maintenance, engineering, refuse collection), planning and zoning, building inspections, human services, library, parks and recreation, and general administrative services. In addition, the City water and sewer services are provided under an Enterprise Fund concept, with user charges set by City Council to ensure adequate coverage of operating and capital expenses.

The annual budget serves as the foundation for the City's financial planning and control. The budget process defines, communicates, and funds the City's programs and priorities. The completed budget is City Council's road map, and a primary management tool for the City Manager and Department Heads. The annual Budget Guide is a formal call for all departments of the City, and agencies associated with it, to prepare and submit an estimate of the resources required for the next fiscal year. It includes a set of procedures for building a comprehensive budget for the City Manager to submit to City Council in March of each year. It also serves as a mid-year review to identify adjustments necessary to the current year budget. City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public works), and department (e.g., streets). Department heads may make transfers of appropriations within a department, with the approval of the City Manager. Budget amendments requiring changes in total fund appropriations require special approval of City Council, and possibly a public hearing. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented in the fund financial statements section.

The Williamsburg Economy

The economy of the City of Williamsburg is propelled by tourism and education.

Tourism – including major attractions and the hospitality industry – provides the most significant source of tax base for the city government. In FY 2003, retail sales in the city totaled \$378 million, and the assessed value of taxable real property totaled \$995 million. These totals compare with a resident population of 11,998. Within the city limits are 54 hotels/motels, 41 Bed and Breakfasts, and 85 restaurants.

The lynch pin of tourism is Colonial Williamsburg Foundation which operates the nation's most extensive living history museum. Encompassing 578 restored or reconstructed buildings and employing approximately 3,000, the Foundation interprets the 18th century history of America in Virginia's colonial capital. Other nearby attractions not located in the city include Jamestown (site of the first permanent English settlement in 1607), Yorktown (site of Washington's victory over Cornwallis in the Revolutionary War), and Busch Gardens and Water Country USA theme parks. These attractions draw a conservative estimate of 4 million ticketed visitors annually. Next to tourism, higher education drives the Williamsburg economy. The College of William and Mary, located within the city, is the nation's second oldest university. The College owns 18.3% of the land area of the city, enrolls 7,645 students, and employs 2,887 faculty and staff.

Economic Development Activity - City Council's 2001 goal of returning the City's 55-acre commercial site on Richmond Road and Ironbound Roads to the private sector for development of a regional shopping complex is well on its way. The City contracted in March 2002 for the \$6.5 Million sale of this property adjacent to the Richmond Road business corridor to Lerner Enterprises, a Washington D.C. based developer, owner and manager of real estate. **High Street Williamsburg** is envisioned as a "Main" street, with wide sidewalks, storefronts along High Street, landscaped courtyards, public spaces and office and residential uses integrated into the development. High Street Williamsburg is being designed as a premier mixed-use pedestrian-oriented retail and entertainment destination within the City. Projected to encompass over 400,000 sq. ft. of improvements, the development is intended to contain a mix of predominantly higher quality national retailers and entertainment providers and local stores. It is anticipated that this project should bring over \$1 Million per year in new revenues to the City when fully developed. Groundbreaking is targeted for July, 2005. In the interim, City Council and the City Manager are working to acquire adjacent properties and right-of-ways necessary to complete this development. The City is also actively involved with the Virginia Department of Transportation (VDOT) to accelerate the planned extension of Treyburn Drive, which supports the development of this property.

During FY 2002 the City issued \$4.5 Million in a General Obligation 2-yr note, and \$2.5 Million in a 15-yr bond to finance construction of the Prince George Parking Garage. In September, 2002 City Council awarded a bid to Kjellstrom & Lee, Inc., for the construction of the facility. The three-level concrete parking structure, with a capacity of 362 vehicles, is being built adjacent to Prince George Street, on land donated by the Colonial Williamsburg Foundation. Included in the \$7.4 Million appropriated for this project is site work, property acquisition, parking controls, drainage, and streetscape work to include a redesign of bricked sidewalks along Prince George Street. The structure will provide much-needed parking in the historic area for shoppers and tourists alike. With the scheduled opening in early 2004, it is anticipated that revenues derived from this paid-parking facility will be sufficient to cover operating costs and a portion of the annual debt service for the 15-year bond. The \$4.5 Million 2-yr note was refinanced in October, 2003 with a short-term 1.65% note, due October, 2005, at which that time City Council can decide whether to pay the \$4.5 Million principal in full with the sale of existing City assets, or pursue alternative refinancing.

The City's Utility Fund purchased the 133-acre Royals property in January, 2001 at a cost of \$5.78 Million to provide additional environmental protection for the Waller Mill Reservoir Watershed, the City-owned raw water source located in adjacent York County. A five-year G.O. bond was issued for this purchase, with all principal being due in January, 2006. This property was purchased with the intent to resell a 50+ acre section along Mooretown Road for commercial development, using the proceeds to essentially pay down the majority of the bond principal by the due date. The property is currently listed with a marketing agent. Additionally, the City refinanced this debt instrument in October, 2002, reducing the interest rate from 4.22% to 2.54%, and saving in excess of \$260,000 over the remaining term in the process.

Financial Strategy - The City of Williamsburg takes pride in providing a high level of public services to its residents at a reasonable cost. The real estate tax rate of 54¢ per \$100 of assessed value has been in effect since FY 1991, and is the lowest city rate in the Commonwealth of Virginia. The City relies heavily on room and meal taxes to provide the largest source of funding for its services. Room and Meal taxes account for 39% of the General Fund operating budget for FY 2003.

With a heavy reliance on tourism revenues comes the obvious concern over economic downturn, especially in the wake of September 11th, 2001, and the national and state economies in recent months. Looking at the numbers immediately after the attack on the World Trade Center, Williamsburg fared better than many tourist destinations, although room tax receipts have steadily declined since December, 2002. Room tax receipts during FY 2003 were \$3.9 Million-down 3.4% from FY 2002 totals. Meal tax receipts during the year were \$5.2 Million, down 1.4% from last year, another discouraging downward trend since October, 2002. Local sales and use taxes totaled \$3.8 Million for FY 2003, down 5.4% from last year. Although attributable to the general economic downturn, these trends have required the City to look at all budget-balancing options. The adopted budget for FY 2004, approved in May, includes additional wireless communications and cigarette taxes. Additionally, rising real estate property assessments provide a greater share of City revenues. This is not to say the importance of tourism taxes is diminishing, in fact quite the contrary. The City works to build the region's travel and tourism based economy as its primary fiscal strategy. City Council realizes the importance of tourism and partners each year with the Colonial Williamsburg Foundation, the

Williamsburg Area Chamber of Commerce, and the Williamsburg Area Convention and Visitors Bureau, providing substantial funding for advertising. Contributions to these organizations during FY 2003 totaled \$2.1 Million. In addition, City Council approved in April, 2003 a one-time contribution to the Colonial Williamsburg Foundation for additional tourism marketing of \$250,000 - \$100,000 in FY 2003, and \$150,000 in FY 2004.

The City's real estate and personal property tax bases have experienced stable growth over the past 10 years. During FY 2003 the real estate tax base increased by 9.6%. A similar increase is being experienced for next fiscal year, attributable to a strong and desirable local housing market, low interest rates, and new construction in the City. We believe the City can sustain this growth, and along with the projects mentioned above, will continue to provide the type and quality of services our residents are accustomed to, and at relatively low tax rates.

City staff has formulated financing strategies with the City's financial advisors, Davenport and Co., LLC., in order to stay on schedule with major projects, and maintain a minimum General Fund undesignated fund balance of \$8 - \$10 Million.

Cash Management - City Council adopted formal and strict guidelines governing investment policy and procedures in 1995. Cash temporarily idle during the year was invested by advisors Evergreen Investments, a subsidiary of Wachovia Bank, and the Local Government Investment Pool (LGIP) administered by the State Treasurer's office. The policy's objective, in order of priority is (1) Safety, (2) Liquidity, and (3) Return on Investment. Allowable investments and quality approved for use by the City are:

1. U.S. Treasury Bills, Notes, Bonds and other obligations of the U.S. Government
2. Fixed rate obligations of Agencies of the Federal Government
3. Obligations of the Commonwealth of Virginia
4. Repurchase Agreements executed through Federal Reserve Member Banks or Primary Dealers in U.S. Government Securities, and meeting certain minimum collateralization guidelines
5. Certificates of deposit of national banks located within the Commonwealth
6. Various types of other notes (Banker's Acceptances, Commercial Paper, etc.) meeting certain minimum quality standards of investment rating companies

The average investment return on the longer-term portfolio was 3.23% for the year, while the LGIP, being that the dollar weighted average maturity of the portfolio may not exceed 90 days, averaged 1.50% for the year.

Risk Management - The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Virginia Municipal Liability Pool, administered by the Virginia Municipal Self Insurance Association and the Virginia Municipal League. This program provides self-insurance coverage for workers' compensation, general liability, automobile liability, property and fire protection, and public officials' liability and law enforcement liability (except for elected officials).

The City has a self-insurance plan for its employee health insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Details of the health insurance program are provided in the Notes to the Financial Statements.

Last fiscal year the City initiated a retirees' health insurance supplement program effective January 1, 2002. Twenty retirees currently receive this supplement. Details of this new program are presented in the Notes to the Financial Statements.

The City currently reports all of its risk management activities in the General Fund and Utility Fund.

Independent Audit

The State Code of the Commonwealth of Virginia requires an annual audit of the books of account, financial records, and transactions of the City. This requirement has been complied with and the unqualified opinion of Witt Mares Eggleston Smith, PLC., independent certified public accountants, has been included in this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Williamsburg, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This was the 17th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the past ten years. In order to qualify for the Distinguished Budget Presentation Award, the City's Budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Acknowledgements

The preparation of this report has been accomplished with the efficient and dedicated services of the City Department of Finance. We would like to express our appreciation to all members of the departments who assisted and contributed in its preparation. In addition, the accounting firm of Witt Mares Eggleston Smith, PLC, is to be congratulated for their substantial contributions, by way of design, counsel, and interpretation of recent guidelines, especially with this second year implementation of the requirements of GASB Statement 34. We also wish to express thanks to the Mayor and members of City Council for their unfailing support in planning and conducting the financial operations of the City of Williamsburg in a responsible and progressive manner.

Respectfully Submitted,

Jackson C. Tuttle
City Manager

Philip F. Serra
Director of Finance

The Management's Discussion and Analysis (MD&A) offers readers of the City's financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2003. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, and in the financial statements and notes to the financial statements (which immediately follow this discussion). This Comprehensive Annual Financial Report marks the second year the City has complied with the new financial reporting requirements of GASB Statement No. 34 (*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*). New sections include this Management's Discussion and Analysis, the Government-wide Statement of Net Assets, the Government-wide Statement of Activities, the concept of major fund reporting, and the reporting of infrastructure capital assets and long term debt liabilities in the governmental activities. These concepts are explained throughout this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The net assets of the City of Williamsburg exceeded its liabilities at June 30, 2003 by \$79 million dollars. Net assets invested in capital assets (net of depreciation and related debt) account for nearly 66% of this amount, with a value of \$52 Million. The remaining net assets may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- Total General Fund (including 1% Sales Tax) revenues were \$28.7 Million for FY 2003, compared to \$29.1 last year. General property tax receipts were \$8.2 Million, up 8.4% from last year's \$7.6 Million. Other local taxes, consisting of room, meal, and 1% state sales tax receipts, were down 4.4%, largely from a sluggish economy. Revenue from the use of money and property was down 28%, caused by lower interest rates, and lower cash balances with property acquisitions during FY 2003.
- Total General Fund (including capital) expenditures totaled \$32 Million for FY 2003, 16.4% higher than last year. Looking at operating expenditures only, total costs were \$23.2 Million, about \$58,000 lower than last year. This was accomplished with over \$200,000 savings on the first year of a 5-year joint school contract, and the delayed resurfacing of Richmond Road, while still providing for increases in personnel and other costs in all departments city-wide.
- As of June 30, 2003, the City's governmental activities reported an ending fund balance of \$22.3 Million. This amount is available for spending at the government's discretion (*unreserved fund balance*). Of this total, \$9.2 Million is designated for subsequent years' capital expenditures.
- Pursuing additional land for High Street, a major new mixed-use development on a 50 acre City-owned site under contract to Lerner Enterprises, the City purchased two parcels on Richmond Road in FY 2003 at a cost of \$2.2 Million. Two additional parcels were purchased in early FY 2004 for the same purpose. The City also contracted for stage one of the construction of Treyburn Drive in FY 2003 to expand the City's street system and improve access to High Street.
- In September, 2002 the City contracted with Kjellstrom & Lee, Inc. for the construction of the Prince George Parking Garage for the bid amount of \$4.4 Million to support the downtown economy. This City-owned paid-parking garage is well under construction, and is scheduled to open in early 2004. In addition, the notes to the financial statements include information regarding the refinancing of the General Fund's \$4.5 Million note due January, 2004 used as partial financing for the Prince George Parking Garage.
- Business-type activities (Utility Fund) reported net assets at June 30, 2003 of \$13.4 Million. Its net assets invested in capital assets (net of depreciation and related debt) account for 64% of this amount, with the remaining net assets of \$4.9 Million available without restriction. The Utility Fund reports combined cash and investments at year-end of \$4.9 Million, with total short-term liabilities of \$1 Million. Long-term debt obligations at June 30, 2003 were \$7.2 Million.
- In the year ending June 30, 2003, the City refinanced \$5.88 Million of the Utility Funds' 2001 Royals property purchase, taking advantage of lower interest rates. The borrowing rate was reduced from

4.22% to 2.54%, resulting in savings of approximately \$265,000 over the remaining 40 month term of the bond.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Williamsburg's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements.

Government-wide Financial Statements

There are two government-wide financial statements, which are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, judicial, public safety, public works, health and welfare, education, parks and recreation, cultural, community development, and debt service. The sole business-type activity of the City of Williamsburg is the water utility.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, this is just one indicator of financial health of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in June 30, 2003, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed until after June 30, 2003.

The City has no separately identified component units included in the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Williamsburg, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Williamsburg can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental Funds are used to account for most, if not all, of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund. (GASB Statement No. 34 defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund.) The governmental fund financial statements can be found immediately following the government-wide financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The City maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level. Personal services are budgeted by fulltime positions. Capital outlays are approved on an item-by-item basis or project basis. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget. Major fund budgetary variance statements are included with the basic financial statements. Nonmajor fund information follows the notes to the financial statements. Budgetary variances for the General Fund are discussed in some detail later in this section.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water utility operations.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. The proprietary fund financial statements provide information for the Water Utility Fund, which is considered to be the only major proprietary fund of the City. There are no reconciling differences from the Proprietary Fund Statement of Net Assets to the business-type activity column on the Government-Wide Statement of Net Assets.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Williamsburg has one type of fiduciary funds- Agency Funds (which are clearing accounts for assets held by the City in its role as custodian until the funds are allocated to the organizations or government agencies to which they belong). The Statement of Fiduciary Net Assets can be found following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets total \$79,551,091 at June 30, 2003. The following table reflects the condensed Government-Wide Statement of Net Assets:

City of Williamsburg's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Current and Other Assets	\$ 24,859,334	\$ 27,843,666	\$ 5,649,335	\$ 5,848,633	\$ 30,508,669	\$ 33,692,299
Capital Assets	<u>55,563,109</u>	<u>50,467,608</u>	<u>16,051,021</u>	<u>15,375,067</u>	<u>71,614,130</u>	<u>65,842,675</u>
Total Assets	\$ 80,422,443	\$ 78,311,274	\$ 21,700,356	\$ 21,223,700	\$ 102,122,799	\$ 99,534,974
Long-term Liabilities	\$ 6,605,509	\$ 12,032,715	\$ 7,525,173	\$ 7,700,360	\$ 14,130,682	\$ 19,733,075
Other Liabilities	<u>7,682,298</u>	<u>2,555,853</u>	<u>733,311</u>	<u>774,667</u>	<u>8,415,609</u>	<u>3,330,520</u>
Total Liabilities	14,287,807	14,588,568	8,258,484	8,475,027	22,546,291	23,063,595
Net Assets:						
Invested in Capital Assets, net						
of related debt	43,829,109	37,815,608	8,525,848	7,674,707	52,354,957	45,490,315
Restricted	9,200,000	13,440,000	-	-	9,200,000	13,440,000
Unrestricted	<u>13,105,527</u>	<u>12,467,098</u>	<u>4,916,024</u>	<u>5,073,966</u>	<u>18,021,551</u>	<u>17,541,064</u>
Total Net Assets	\$ 66,134,636	\$ 63,722,706	\$ 13,441,872	\$ 12,748,673	\$ 79,576,508	\$ 76,471,379

The City of Williamsburg's total assets were over \$102 million as of June 30, 2003. Of this amount, \$71.6 million is accounted for by capital assets, which includes infrastructure. Historically, infrastructure (roads, bridges, right-of-ways, etc.) has not been included in capital asset reporting for governmental activities. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported. The City reports all of its infrastructure assets in compliance with GASB 34 requirements.

Additionally, the government must elect to either 1) depreciate these assets over their estimated useful life or 2) develop a system of asset management designed to maintain their condition perpetually and to report on their condition within the financial statements. The City has elected the first method and will use the depreciation method on infrastructure systems reporting.

Of the remaining City assets, approximately \$26.9 million is accounted for in cash, cash equivalents, and pooled investments, \$2.4 million in accounts and notes receivable, with the remainder spread among miscellaneous assets.

At June 30, 2003, the City had outstanding liabilities of \$22.6 million, with slightly over \$19.2 million in bonds payable. Of the bonds payable, \$5.7 million was due within one year, with the remainder due at various dates before 2017. Refer to the notes to the financial statements for a more in depth discussion of long term debt, and the October, 2003 refinancing of the \$4.5 Million note used for partial financing of the Prince George Parking Garage reported as a subsequent event.

Included in other liabilities in the table are \$1.8 million in accounts payable, \$0.8 million in accrued liabilities, and \$84,856 in deposits payable to customers.

The largest portion of the City's net assets reflects its investment in capital, less any outstanding related debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, investments in capital are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are designated for subsequent years' capital projects. In the current fiscal year, this represented \$9.2 Million or 12% of net assets. The remaining \$13.1 Million or 17% of net assets may be used to meet the City's ongoing obligations to its citizens and creditors for all activities.

At June 30, 2003, the City had positive balances in all categories of net assets, for the government as a whole, and for governmental activities. Business-type activities report positive balances in both capital and unrestricted assets; there were no restricted assets.

Statement of Activities - Changes in Net Assets

The following schedule compares the revenues and expenses for the current and previous fiscal year.

City of Williamsburg's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Program Revenues:						
Charges for services	\$ 1,733,222	\$ 1,735,178	\$ 4,721,388	\$ 4,802,684	\$ 6,454,610	\$ 6,537,862
Operating grants and contributions	3,307,596	3,114,585	-	-	3,307,596	3,114,585
Capital grants and contributions	102,974	205,859	-	-	102,974	205,859
General Revenues:						
Property taxes	8,175,276	7,541,778	-	-	8,175,276	7,541,778
Other local taxes	15,950,475	16,757,025	-	-	15,950,475	16,757,025
Other	<u>510,063</u>	<u>1,169,725</u>	<u>70,407</u>	<u>123,220</u>	<u>580,470</u>	<u>1,292,945</u>
Total Revenues	29,779,606	30,524,150	4,791,795	4,925,904	34,571,401	35,450,054
Expenses:						
General government	2,758,568	2,625,791	-	-	2,758,568	2,625,791
Judicial administration	273,154	293,703	-	-	273,154	293,703
Public safety	6,563,142	6,224,163	-	-	6,563,142	6,224,163
Public works	3,765,655	4,189,199	-	-	3,765,655	4,189,199
Health and welfare	1,809,216	1,600,391	-	-	1,809,216	1,600,391
Education	6,583,596	6,763,889	-	-	6,583,596	6,763,889
Parks, recreation, & cultural	2,071,236	1,970,796	-	-	2,071,236	1,970,796
Community Development	3,135,821	2,911,908	-	-	3,135,821	2,911,908
Nondepartmental	46,163	86,589	-	-	46,163	86,589
Interest expense	361,125	290,907	-	-	361,125	290,907
Water	-	-	<u>4,098,596</u>	<u>4,501,762</u>	<u>4,098,596</u>	<u>4,501,762</u>
Total Expenses	27,367,676	26,957,336	4,098,596	4,501,762	31,466,272	31,459,098
Excess of revenues over expenses	2,411,930	3,566,814	693,199	424,142	3,105,129	3,990,956
Transfers	-	<u>50,000</u>	-	-	-	<u>50,000</u>
Increase in net assets	2,411,930	3,616,814	693,199	424,142	3,105,129	4,040,956
Net assets - beginning	<u>63,722,706</u>	<u>60,105,892</u>	<u>12,748,673</u>	<u>12,324,531</u>	<u>76,471,379</u>	<u>72,430,423</u>
Net assets - ending	<u>\$66,134,636</u>	<u>\$63,722,706</u>	<u>\$13,441,872</u>	<u>\$12,748,673</u>	<u>\$79,576,508</u>	<u>\$76,471,379</u>

Total revenues for the City of Williamsburg were \$34.5 Million for the year ended June 30, 2003. Governmental activities provided nearly \$29.8 Million (88%), while \$4.8 Million of business-type activities revenue was provided by charges for services and interest income.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Williamsburg uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following is a financial analysis of the City's governmental and proprietary funds.

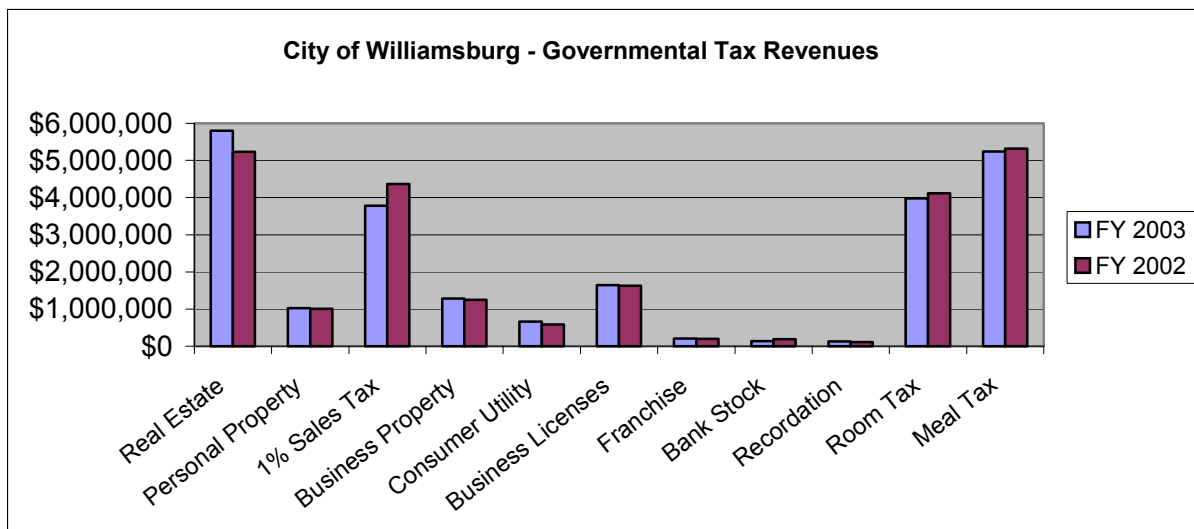
Governmental Funds Revenue and Expense Analysis

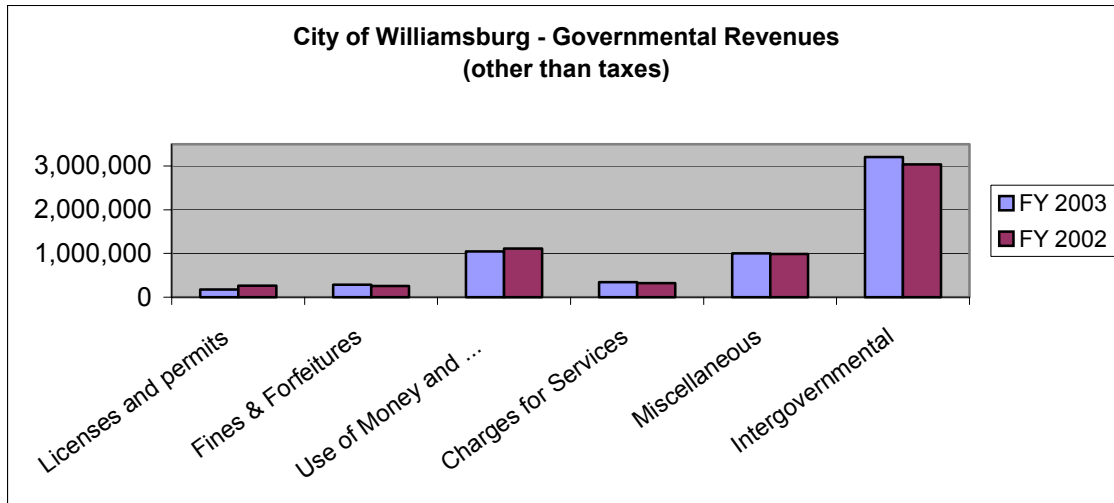
The general governmental functions are contained in the General Fund. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. On June 30, 2003, unreserved, undesignated fund balance of the General Fund was \$13.1 Million, while total fund balance reached \$22.3 Million. Total assets in the General Fund amounted to \$24.6 Million, accounting for 99% of total governmental fund assets.

Revenues Classified by Source Governmental Funds

Revenues by Source	June 30, 2003		June 30, 2002		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Property Taxes	\$8,210,667	27.57%	\$7,577,391	25.14%	\$633,276	8.36%
Other Local Taxes	15,782,346	52.99%	16,506,306	54.76%	(723,960)	-4.39%
Licenses and permits	212,618	0.71%	173,985	0.58%	38,633	22.20%
Fines & Forfeitures	273,584	0.92%	282,664	0.94%	(9,080)	-3.21%
Use of Money and Property	755,011	2.53%	1,049,518	3.48%	(294,507)	-28.06%
Charges for Services	345,348	1.16%	341,113	1.13%	4,235	1.24%
Miscellaneous	803,284	2.70%	1,004,432	3.33%	(201,148)	-20.03%
Intergovernmental	3,403,461	11.43%	3,206,182	10.64%	197,279	6.15%
Total Revenues	<u>29,786,319</u>	<u>100.00%</u>	<u>30,141,591</u>	<u>100.00%</u>	<u>(355,272)</u>	<u>-1.18%</u>





The following provides an explanation of revenues by source that changed significantly over the prior year.

- **General Property Taxes** –This consists of real and personal property tax receipts. Real property tax receipts were \$5,523,130, up 11% from last year. This is due to increased assessments city-wide, new construction, and increased collection efforts for delinquent real estate taxes during the year. The real estate tax rate has remained at 54¢/\$100 since 1991. Personal property tax receipts, including businesses, were \$2,301,397 – up approximately 2% over from the prior year.
- **Other Local Taxes** - Down overall 4.4% from the previous year, local taxes include State sales taxes, consumer utility taxes, business and franchise licenses, bank stock and recordation taxes, room, and meal taxes.
 - State sales taxes were \$3,781,232, a decrease of 5.4% from the previous year. This is attributable to a downturn in consumer spending caused by a variety of economic factors, as experienced locally and nationally.
 - Consumer utility taxes were \$665,980, an increase of 13.1% from last year; largely due to a full year's collection experience of the E-911 tax increase from \$1 to \$2 per phone line effective July 1, 2001.
 - Room taxes were \$3,974,894, a 3.4% decrease of \$139,116 from last year. This is attributable to decreased visitation to the Williamsburg area experienced this year.
 - Meal taxes were \$5,244,106, down \$74,780, a decrease of 1.4% from the previous year. Economic implications and restaurant competition from neighboring counties have impacted this major local revenue during FY 2003.
- **Use of Money and Property** – Federal Reserve interest rate cuts over the last two years, and the property acquisitions required for the development of the High Street project resulted in a reduction in earnings potential for the City's investment portfolio. Interest earnings for year ended June 30, 2003 were \$509,695, down \$368,046, or 42% from June 30, 2002 levels. Helping to offset those reductions were increases in rental revenues during the current year. Revenues from the use of property were \$245,278, up \$73,815, or 43% from last year. Additional rented spaces and amenities charges for properties adjacent to the City's parking deck, automatic increases for various tenant contracts, and proceeds from the sale of surplus vehicles account for the overall increase.
- **Charges for Services** – Overall this category increased slightly over 1% from last fiscal year. from \$341,113 in FY 2002 to \$345,348. This category is consists largely of recreation programs, recreation facility rentals, and cemetery lots and fees.

- **Miscellaneous** – Down \$187,170 from last year, largely due to last year's high activity with the sale of stormwater credits totaling more than \$131,000 in the Sales Tax Fund, and a reduction in State School Construction funding during FY 2003 of \$102,885.
- **Intergovernmental** – largely consisting of State revenues, these revenues are up \$94,250 from FY 2002 levels.
 - Non-categorical aid is down \$22,239 from the preceding year. ABC profits, wine taxes, rolling stock, and 599 funds were down 7.2%, directly attributable to State cuts during FY 2003. Rental car and grantors taxes were up slightly.
 - Shared expenses for Commissioner of the Revenue, Treasurer, Medical Examiner, and Registrar/Electoral Board were down a total of \$11,245, or 8.1% from the level in the previous year, also directly attributable to cuts in State aid.
 - State sales tax for education, a dedicated funding source based on school-aged population among Virginia localities, was up 12.4% to \$482,361 for FY 2003. The school population-based formula was adjusted mid-year, as it is every three years, and these receipts are based on a greater number of City students. Other categorical aid, largely consisting of State highway maintenance payments, was up 12.1% from the preceding year. These payments, based on road lane miles, increased by \$45,757, or 4.4% during the year. State Wireless funds of \$91,197 are also included in Categorical aid.

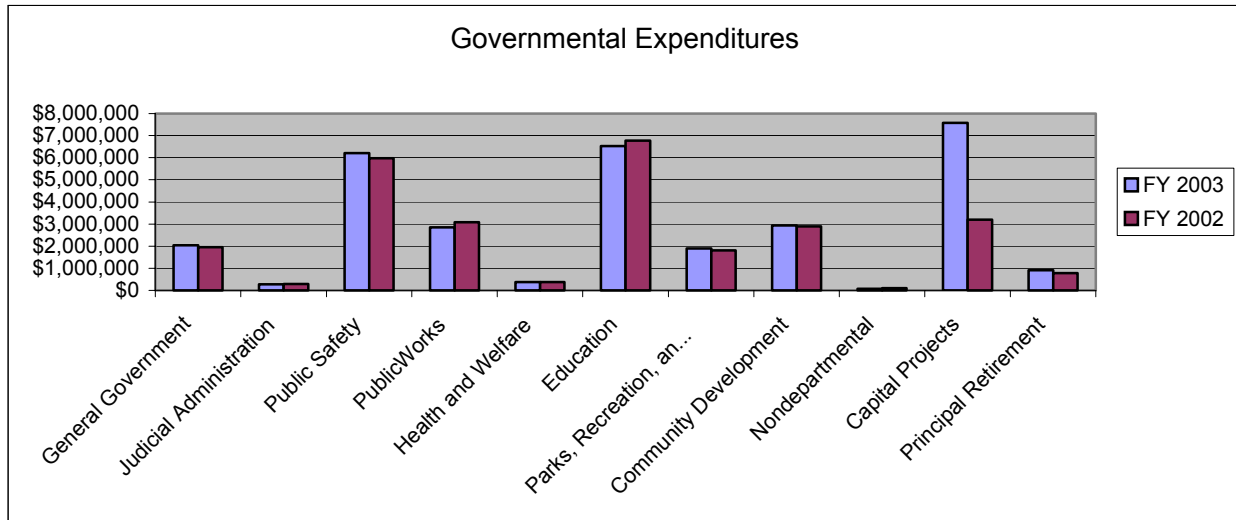
The revenue categories above do not include one-time only financing sources, such as bond proceeds and the sale of City-owned capital assets. The City sold a property adjacent to the City Square parking deck during the year for \$123,329.

The net change in fund balance for the General Fund in FY 2003 was a decrease of \$3,566,693, largely due to continued and planned capital spending, including the construction in progress for the Prince George Parking Garage, a \$6.4 Million project anticipated opening in January, 2004. The total Fund Balance for the General Fund at June 30, 2003 is \$22,360,336. Of this amount, \$9.2 Million is designated for subsequent years' capital expenditures.

The following table represents expenditures by function compared to prior year amounts.

**Expenditures By Function
Governmental Funds**

<u>Expenditures by Function</u>	<u>June 30, 2003</u>		<u>June 30, 2002</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Change</u>
General Government	\$2,040,718	6.10%	\$1,952,376	6.78%	\$88,342	4.52%
Judicial Administration	273,154	0.82%	293,703	1.02%	(20,549)	-7.00%
Public Safety	6,216,677	18.58%	6,033,070	20.95%	183,607	3.04%
Public Works	2,853,272	8.53%	3,078,356	10.69%	(225,084)	-7.31%
Health and Welfare	1,804,729	5.39%	1,600,018	5.56%	204,711	12.79%
Education	6,518,691	19.48%	6,763,889	23.49%	(245,198)	-3.63%
Parks, Recreation, and Cultural	1,895,779	5.67%	1,809,048	6.28%	86,731	4.79%
Community Development	2,932,800	8.77%	2,898,086	10.06%	34,714	1.20%
Nondepartmental	68,644	0.21%	97,680	0.34%	(29,036)	-29.73%
Capital Projects	7,582,378	22.66%	3,192,642	11.09%	4,389,736	137.50%
Principal Retirement	908,000	2.71%	788,000	2.74%	120,000.00	15.23%
Interest	361,125	1.08%	290,907	1.01%	70,218	24.14%
Total Expenditures	<u>\$33,455,967</u>	<u>100.00%</u>	<u>\$28,797,775</u>	<u>100.00%</u>	<u>\$4,658,192</u>	<u>16.18%</u>



The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- **General Government Administration**

- General and Financial Administration – Up \$88,342 from the previous year, largely due to slight spending increases for the City Manager, Commissioner of the Revenue, Finance, and City Shop. The Assessor's operation experienced savings with the partial-year vacancy of the position this year.
- Board of Elections – The Electoral Board and Registrar experienced a slight decrease in spending of \$6,376.

- **Judicial Administration** – The City funds judicial offices with James City County in the jointly owned Courthouse, according to a population-based formula each year. The City's share of expenditures totaled \$273,154 - 19.6% of total expenses, down 7% from the prior year. While mandatory State budget cuts continued during the year, with the localities funding a larger portion of judicial operations, additional costs were offset by local fees imposed through the courts.

- **Public Safety** – This category is made up of several departments:

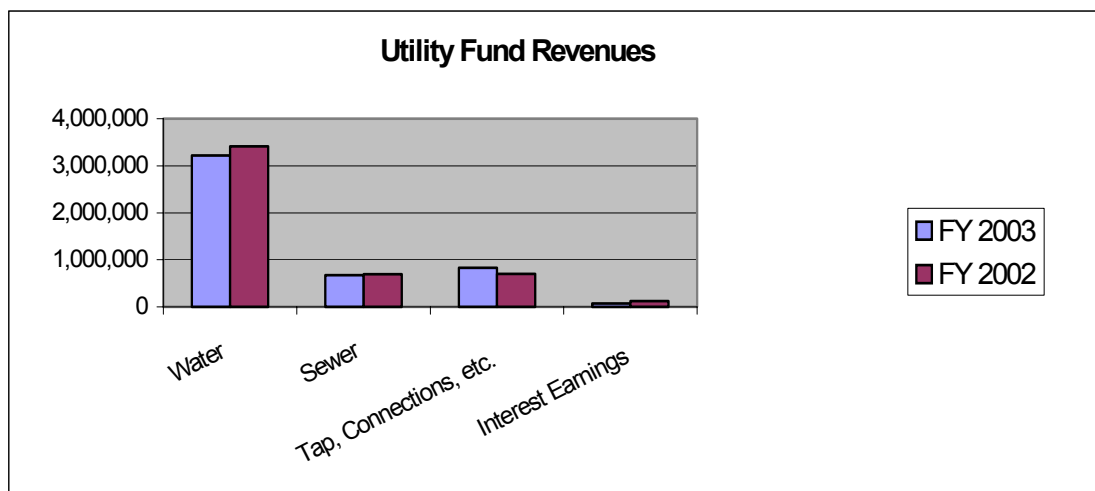
- Law Enforcement & Traffic Control – Expenditures for the Police Department were \$2,421,463, up \$4,446 or .2% from FY 2002. Health care costs were up 12%, and telecommunications and radio costs were up 41%. The department did experience salary and associated pension savings from vacant positions during the year. There were also savings during in professional services, maintenance contracts, and other operating supplies.
- E-911 – This program is responsible for City-wide E-911 dispatch operations at the Police Department. This operation experienced a 1.4% increase to \$439,797 over the preceding year
- Fire and Rescue Services - Total expenditures were up \$65,686, or 3.1% the prior year. Hospitalization costs were up 12%, professional health services were up 35%, and the department experienced additional costs during the year for heating, communications equipment, and machinery & equipment. Building maintenance costs were down 66%, and pension costs were 17% lower than last fiscal year, caused by position vacancies.

- **Correction and Detention –**
 - The City incurred expenditures for the Virginia Peninsula Regional Jail, which also serves James City County, Poquoson, and York County, totaling \$659,574 during the year ended June 30, 2003, up 20% from the previous year. Jail population for City crimes was 23,544 and 23,993 days incarceration during the years ended June 30, 2002 and 2003, respectively, an increase of 1.9%. Recent cuts in State aid required the Jail Authority to approve a revised per diem rate in January of \$26.79, a 10.5% increase over the originally budgeted rate of \$24.25. In addition, the Jail Authority Board addressed an operating deficit of approximately \$100,000 during FY 2003, billing member localities a proportionate share commensurate to the percentage of local jail days used by each jurisdiction. The City's share of this deficit was \$17,800.
 - Juvenile detention costs during the year were \$138,076, up 19% over last year, due to an extremely large daily population. Total days incarceration in FY 2003 were 1,199, while 1,044 days were experienced in the previous year – an increase of 15%. Like the Va Peninsula Regional Jail, juvenile incarceration is based on crimes, and very difficult to predict and budget for.
 - Inspection costs were \$277,662 during the year ended June 30, 2003, up \$32,502, or 13.3% over the prior year. This is largely attributable to increased staffing costs to accommodate an increase in building activity in the City, and additional inspection programs.
- **Public Works –** Various activities make up this category:
 - Engineering – Expenditures during the year ending were \$186,143, up 4% due to increased personnel costs.
 - Streets – Overall costs were down 22% for the year, due to the delay of the Richmond Road paving schedule. That project was completed in September, 2003, and will be included in next year's expenditures, along with another major resurfacing project.
 - Refuse Collection – Expenditures for the year were \$476,156, up just .2% over last year.
 - Maintenance-Building, grounds, and landscaping, were up \$1,164,825, up 5.9% from last fiscal year.
- **Health & Welfare –** Local health department costs were \$196,150, up 3.8% over last year. Contributions to the Colonial Services Board were up \$6,119, 3.5% higher than last year.
- **Education –** Current year education costs were \$6,518,691, down 3.6% from last year. The City's share of the joint Williamsburg-James City County Public School system for the year ended June 30, 2003 was 11.63%. FY 2003 was the first year of a new five-year agreement, with operating funding based on the City's share of student population times a factor. The factor for FY 2003 was 1.38. Also under the revised agreement beginning with the year ending June 30, 2003, the City will pay a portion of capital projects. The City's share of capital projects for FY 2003 was \$153,493.
- **Parks, Recreation and Cultural –**
 - Recreation costs were \$1,137,105, up 6.3% over last year. FY 2003 is the first full year of operations of the newly expanded Quarterpath Recreation Center. Electricity costs for the center are higher with additional HVAC units now in place. Heating and telecommunications costs are also higher this year. Hospitalization costs were up 14.2% over last year.
 - The City's share of the Williamsburg Regional Library for the year ended June 30, 2002 were \$713,702, up 5% from last year, due to increases in operating costs. The City's share for the FY 2003 was 16.78% according to the agreement with James City County, which is based on circulation each year. In addition, \$44,972 was spent on repairs and maintenance of the City-owned facility located on Scotland Street.

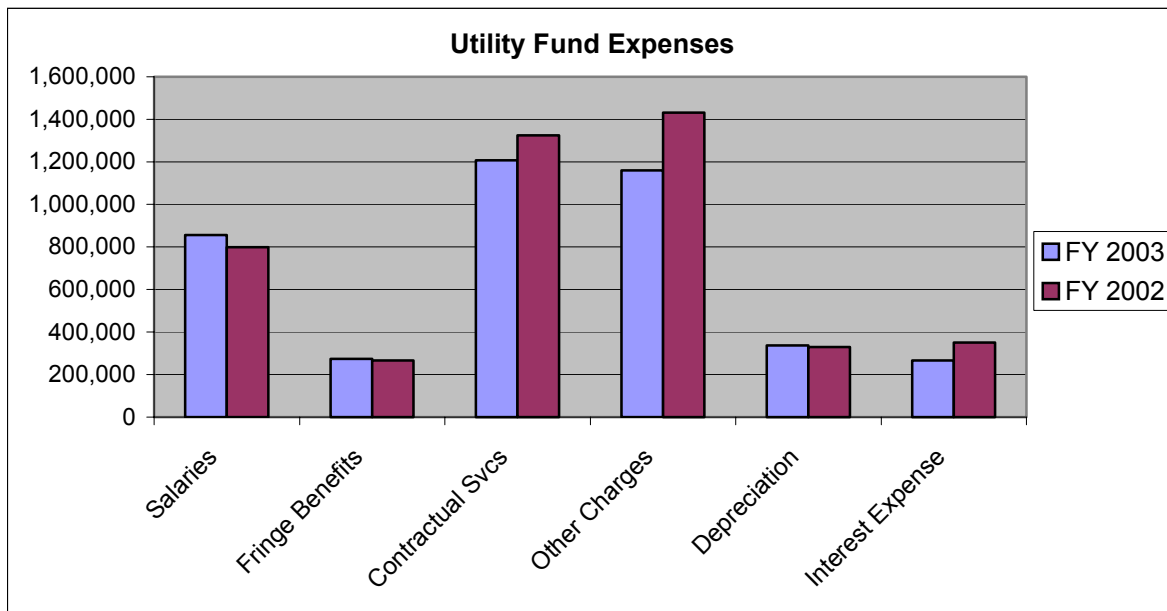
- **Community Development**
 - Planning – Total expenditures were \$351,875 for FY 2003, up approximately 5.2% over last year. Salaries, hospitalization, and professional services accounted for most of the increases over last year.
 - Community Development – This consists of contributions to outside human service type, and community and economic development agencies. For the second straight year, these costs were up less than 1% for the year. Arts Commission funding was \$128,568, up less than 1% over last year.
- **Capital Projects** – Capital projects vary each year depending on the 5-year program. For the year ended June 30, 2003 the City spent \$7,582,378 for various projects, including the Prince George Parking Garage.
- **Principal and Interest payments** – Principal and interest payments on outstanding debt increased during FY 2003 with the 2002 borrowing for the Prince George Parking Garage. Total principal payments were \$908,000, and interest costs of \$361,125 were paid during the year. Details of long term debt obligations are included in the notes to the financial statements.

Enterprise Funds Revenue/Expense Analysis

The business-type activity (water and sewer services of the Utility Fund) revenues for the year were \$4.7 Million, down 1.7% from last year. Although water rates increased in July 2002 from \$2.40 to \$2.50 per 1,000 gallons (a 4% increase), overall consumption was down 2.7% from FY 2002. A water rate surcharge of \$.50 per 1,000 gallons was approved by City Council in August, 2002, and was in effect until December, 2002. Tap, connection, and availability fees increased 18% during FY 2003. The City continues to hold three contracts with cell-phone providers using water tanks as a base for telecommunications equipment, totaling \$78,000 per year. Interest earnings for the year ended June 30, 2003 were \$70,407, down approximately 43% from last year, largely due to the decline in earnings rates. The City has contracted with a local real estate firm to market a 50+-acre portion of land purchased in 2001, with proceeds intended to be applied toward Utility Fund debt service.



Expenses in the Utility Fund for the year totaled \$3.8 Million, compared to \$4.1 Million last year. This year's operation lower costs for pump station maintenance, operating supplies, and property taxes on the Waller Mill watershed property, located in York County. Drought conditions during the first half of FY 2003 required additional water purchased from the City of Newport News. The City paid \$313,000 for additional water necessary to maintain safe water levels at the Waller Mill Reservoir under severe drought conditions experienced during the latter half of 2002.



ORIGINAL AND FINAL AMENDED BUDGETS

Property acquisitions were necessary for the High Street development project, and City Council voted unanimously on October 10, 2002 to amend the FY 2003 General Capital Improvements Budget from \$12,481,927 to \$15,381,927 – an increase of \$2.9 Million, for this purpose. All legal public notice and hearing requirements for this action were met.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Williamsburg's total investment in capital assets, including construction in progress, for its governmental and business type activities as of June 30, 2003, amounts to \$71.6 Million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, and construction in progress on the Prince George Parking Garage. Major capital assets of the Utility Fund consist of all assets used to provide water and sewer services to City residents, including the major investment of the Waller Mill Reservoir and all properties adjacent to this watershed.

Major capital project fund activities during the current fiscal year included the following:

Governmental Funds:

- The City completed underground utility work along Richmond Road between Monticello and Bypass Road at a cost of \$975,000. Major street construction will take place during next fiscal year on Richmond Road.
- Two Richmond Road properties were acquired at a cost of \$2.2 Million. Other property transactions are planned, along with the construction of Treyburn Drive, in an effort to complete necessary infrastructure improvements necessary for the High Street development.
- Vehicles and equipment were added to the fleet during the year, at a cost of \$292,000. This included vehicles for police, building inspections, and a new ambulance.
- Construction continued during FY 2003 on the Prince George Parking Garage. Total construction in progress for this project is \$3,125,665. The estimated completion date is early 2004.

Utility Fund:

- A 12" water line was constructed along Henry Street and Francis Street during the year, at a cost of \$637,000.
- A pump station and force main was constructed in the Strawberry Plains development at a cost of \$177,000.

Long-Term Debt

At June 30, 2003, City of Williamsburg had total bonded debt outstanding of \$19.3 million. Governmental activities had bonds payable of \$11.8 million, while business-type activities had \$7.5 million in bonds payable. The full faith and credit of the government back these instruments.

The City of Williamsburg's total bonded debt had a net decrease of \$1.1 million during FY 2003. The City refinanced the Utility Fund's 2001 Royals Property borrowing of \$5.8 Million in October, 2002 to take advantage of reduced interest rates. The City also refinanced in October, 2003, the \$4.5 Million note from 2002 used for partial construction of the Prince George Parking Garage, scheduled for completion in early 2004. This action is reported as a subsequent event in the notes to the financial statement. The City's remaining capacity for debt at June 30, 2003 was approximately \$80 million. The City of Williamsburg has not been rated by a major rating service such as Moody's Investor's Service, or Standard & Poor's. Recent borrowings have been Bank-Qualified (under \$10 Million) private placements with regional banking institutions and private individuals. As in the past, based on recommendation of the City's financial advisors, Davenport and Company, the City of Williamsburg will consider all aspects of private vs. public borrowing in its borrowing analysis.

Requests for Information

This financial report is designed to provide a general overview of the City of Williamsburg's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Williamsburg, 401 Lafayette St., Williamsburg, VA 23185

CITY OF WILLIAMSBURG, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2003

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activity</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,140,292	\$ 88,399	\$ 1,228,691
Investments	20,813,586	4,832,545	25,646,131
Receivables (net of allowances for uncollectibles):			
Taxes	1,206,754	-	1,206,754
Accounts	201,548	60,377	261,925
Unbilled	-	652,804	652,804
Deferred charges	-	28,305	28,305
Accrued interest	103,691	-	103,691
Notes receivable	190,000	-	190,000
Internal balances	13,095	(13,095)	-
Due from other governmental units	1,190,368	-	1,190,368
Capital assets (net of accumulated depreciation)	38,252,832	7,480,630	45,733,462
Capital assets (not being depreciated)	17,310,277	8,570,391	25,880,668
Total Assets	\$ 80,422,443	\$ 21,700,356	\$ 102,122,799
LIABILITIES			
Accounts payable	\$ 1,278,668	\$ 550,842	\$ 1,829,510
Accrued payroll	17,455	1,954	19,409
Accrued vacation pay	504,606	71,466	576,072
Accrued interest payable	110,598	75,348	185,946
Deposits payable	51,155	33,701	84,856
Deferred revenue	306,816	-	306,816
Bonds payable			
Due within one year	5,413,000	287,019	5,700,019
Due in more than one year	6,331,000	7,238,154	13,569,154
Self insurance reserve	274,509	-	274,509
Total Liabilities	14,287,807	8,258,484	22,546,291
NET ASSETS			
Invested in capital assets, net of related debt	43,829,109	8,525,848	52,354,957
Unrestricted	22,305,527	4,916,024	27,221,551
Total Net Assets	66,134,636	13,441,872	79,576,508
Total Liabilities and Net Assets	\$ 80,422,443	\$ 21,700,356	\$ 102,122,799

The notes to financial statements are an integral part of this statement.

CITY OF WILLIAMSBURG, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	
					Governmental Activity	Activity	
PRIMARY GOVERNMENT:							
General government administration	\$ 2,758,568	\$ 862,919	\$ 126,872	\$ -	\$ (1,768,777)	\$ -	\$ (1,768,777)
Judicial administration	273,154	-	-	-	(273,154)	-	(273,154)
Public safety	6,563,142	508,864	448,580	-	(5,605,698)	-	(5,605,698)
Public works	3,765,655	12,071	1,082,951	-	(2,670,633)	-	(2,670,633)
Health and welfare	1,809,216	-	1,097,407	-	(711,809)	-	(711,809)
Education	6,583,596	-	482,361	102,974	(5,998,261)	-	(5,998,261)
Parks, recreation and cultural	2,071,236	297,674	69,425	-	(1,704,137)	-	(1,704,137)
Community development	3,135,821	51,694	-	-	(3,084,127)	-	(3,084,127)
Nondepartmental	46,163	-	-	-	(46,163)	-	(46,163)
Interest expense	361,125	-	-	-	(361,125)	-	(361,125)
TOTAL GOVERNMENTAL ACTIVITIES	27,367,676	1,733,222	3,307,596	102,974	(22,223,884)	-	(22,223,884)
BUSINESS-TYPE ACTIVITY							
Water and sewer services	4,098,596	4,721,388	-	-	-	622,792	622,792
TOTAL BUSINESS-TYPE ACTIVITY	4,098,596	4,721,388	-	-	-	622,792	622,792
TOTAL PRIMARY GOVERNMENT	\$ 31,466,272	\$ 6,454,610	\$ 3,307,596	\$ 102,974	(22,223,884)	622,792	(21,601,092)
General Revenues:							
Real estate taxes					5,865,275	-	5,865,275
Personal property taxes					1,030,925	-	1,030,925
Sales taxes					3,818,105	-	3,818,105
Business property taxes					1,279,076	-	1,279,076
Consumers' utility taxes					665,980	-	665,980
Business license taxes					1,655,221	-	1,655,221
Franchise taxes					202,360	-	202,360
Bank stock taxes					140,880	-	140,880
Recordation of wills taxes					131,173	-	131,173
Hotel and room taxes					3,974,894	-	3,974,894
Meals taxes					5,262,677	-	5,262,677
Other local taxes					99,185	-	99,185
Investment earnings					472,859	70,407	543,266
Gain on sale of capital assets					37,204	-	37,204
Total general revenues					24,635,814	70,407	24,706,221
Change in net assets					2,411,930	693,199	3,105,129
Net assets - beginning					63,722,706	12,748,673	76,471,379
Net assets - ending					\$ 66,134,636	\$ 13,441,872	\$ 79,576,508

The notes to financial statements are an integral part of this statement.

CITY OF WILLIAMSBURG, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 946,654	\$ 193,638	\$ 1,140,292
Investments	20,813,586	-	20,813,586
Receivables (net of allowances for uncollectibles):			
Taxes	1,206,754	-	1,206,754
Accounts	201,548	-	201,548
Accrued interest	103,691	-	103,691
Notes receivable	190,000	-	190,000
Due from other funds	16,472	-	16,472
Due from other governmental units	1,114,913	75,455	1,190,368
	<u>1,114,913</u>	<u>75,455</u>	<u>1,190,368</u>
Total Assets	<u><u>\$ 24,593,618</u></u>	<u><u>\$ 269,093</u></u>	<u><u>\$ 24,862,711</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,222,340	\$ 26,192	\$ 1,248,532
Accrued payroll	17,455	-	17,455
Accrued vacation pay	308,233	19,214	327,447
Accrued interest payable	110,598	-	110,598
Refundable deposits	51,155	-	51,155
Due to other funds	-	3,377	3,377
Deferred revenue	248,992	57,824	306,816
Self insurance liability	274,509	-	274,509
	<u>2,233,282</u>	<u>106,607</u>	<u>\$ 2,339,889</u>
Total Liabilities	<u>2,233,282</u>	<u>106,607</u>	<u>\$ 2,339,889</u>
FUND BALANCES			
Fund balances:			
Unreserved, reported in:			
General fund	13,160,336	-	13,160,336
Virginia public assistance fund	-	111,665	111,665
Law enforcement block grant fund	-	5,359	5,359
Designated for:			
General fund - subsequent years' capital expenditures	9,200,000	-	9,200,000
Virginia public assistance fund - summer youth program	-	45,462	45,462
	<u>22,360,336</u>	<u>162,486</u>	<u>22,522,822</u>
Total Fund Balances	<u>22,360,336</u>	<u>162,486</u>	<u>22,522,822</u>
Total Liabilities and Fund Balances	<u><u>\$ 24,593,618</u></u>	<u><u>\$ 269,093</u></u>	<u><u>\$ 24,862,711</u></u>

CITY OF WILLIAMSBURG, VIRGINIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2003

Total Governmental Fund Balances	\$ 22,522,822
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activity are not financial resources and, therefore, not reported in the fund.	55,563,109
Bonds payable and capital leases are not due and payable in the current period and are not reported in the funds.	(11,744,000)
Vacation pay, not due and payable in the current period, is not reported in the fund.	(177,159)
Capital asset purchased at the end of the year, but was not paid for, and is included in accounts payable	<u>(30,136)</u>
Net assets of governmental activities	<u><u>\$ 66,134,636</u></u>

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
General property taxes	\$ 8,210,667	\$ -	\$ 8,210,667
Other local taxes	15,782,346	-	15,782,346
Permits, privilege fees and regulatory licenses	212,618	-	212,618
Fines and forfeitures	273,584	-	273,584
Revenue from use of money and property	754,973	38	755,011
Charges for services	345,348	-	345,348
Miscellaneous	782,549	20,735	803,284
Intergovernmental	2,306,054	1,097,407	3,403,461
Total Revenues	28,668,139	1,118,180	29,786,319
EXPENDITURES			
Current:			
General government administration	2,040,718	-	2,040,718
Judicial administration	273,154	-	273,154
Public safety	6,213,182	3,495	6,216,677
Public works	2,853,272	-	2,853,272
Health and welfare	381,610	1,423,119	1,804,729
Education	6,518,691	-	6,518,691
Parks, recreation and cultural	1,895,779	-	1,895,779
Community development	2,932,800	-	2,932,800
Nondepartmental	68,644	-	68,644
Capital projects	7,582,378	-	7,582,378
Debt service			
Principal	908,000	-	908,000
Interest	361,125	-	361,125
Total Expenditures	32,029,353	1,426,614	33,455,967
Excess of Revenues Over Expenditures	(3,361,214)	(308,434)	(3,669,648)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	123,329	-	123,329
Transfers in	-	328,808	328,808
Transfers out	(328,808)	-	(328,808)
Total Other Financing Sources	(205,479)	328,808	123,329
Net change in fund balances	(3,566,693)	20,374	(3,546,319)
FUND BALANCES, Beginning	25,927,029	142,112	26,069,141
FUND BALANCES, Ending	\$ 22,360,336	\$ 162,486	\$ 22,522,822

CITY OF WILLIAMSBURG, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2003

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances -- total governmental funds	\$ (3,546,319)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,195,406
The net effect of capital asset sales is to decrease net assets.	(130,041)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	908,000
The long-term portion of vacation pay does not require the use of current financial resources and, therefore, is not reported in expenditures in the governmental fund.	<u>(15,116)</u>
Change in net assets of governmental activities	<u><u>\$ 2,411,930</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES				
General property taxes	\$ 7,683,600	\$ 7,683,600	\$ 8,210,667	\$ 527,067
Other local taxes	16,049,000	16,049,000	15,782,346	(266,654)
Permits, privilege fees and regulatory licenses	171,745	171,745	212,618	40,873
Fines and forfeitures	256,000	256,000	273,584	17,584
Revenue from use of money and property	857,200	857,200	754,973	(102,227)
Charge for services	351,866	351,866	345,348	(6,518)
Miscellaneous	712,424	712,424	782,549	70,125
Intergovernmental	2,209,890	2,209,890	2,306,054	96,164
Total Revenues	28,291,725	28,291,725	28,668,139	376,414
EXPENDITURES				
Current:				
General government administration	2,104,932	2,104,932	2,040,718	64,214
Judicial administration	325,000	325,000	273,154	51,846
Public safety	6,179,705	6,179,705	6,213,182	(33,477)
Public works	3,321,100	3,321,100	2,853,272	467,828
Health and welfare	392,508	392,508	381,610	10,898
Education	6,521,673	6,521,673	6,518,691	2,982
Parks, recreation and cultural	1,875,226	1,875,226	1,895,779	(20,553)
Community development	2,964,630	2,964,630	2,932,800	31,830
Nondepartmental	200,000	200,000	68,644	131,356
Capital projects	13,154,993	16,054,993	7,582,378	8,472,615
Debt service				
Principal	908,000	908,000	908,000	-
Interest	462,934	462,934	361,125	101,809
Total Expenditures	38,410,701	41,310,701	32,029,353	9,281,348
Excess (Deficiency) of Revenues Over Expenditures	(10,118,976)	(13,018,976)	(3,361,214)	9,657,762
OTHER FINANCING SOURCES (USES)				
Transfers out	(442,386)	(442,386)	(328,808)	113,578
Sale of capital asset	-	-	123,329	123,329
Total Other Financing Sources (Uses)	(442,386)	(442,386)	(205,479)	236,907
Net change in fund balance	(10,561,362)	(13,461,362)	(3,566,693)	9,894,669
FUND BALANCE, Beginning	14,121,381	14,121,381	25,927,029	11,805,648
FUND BALANCE, Ending	\$ 3,560,019	\$ 660,019	\$ 22,360,336	\$ 21,700,317

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF NET ASSETS
UTILITY FUND
June 30, 2003

ASSETS

Current Assets

Cash and cash equivalents	\$ 88,399
Investments	4,832,545
Receivables (net of allowance for uncollectibles)	
Accounts	60,377
Unbilled	652,804
Deferred charges	<u>28,305</u>

Total current assets 5,662,430

Noncurrent Assets

Capital assets (net of accumulated depreciation)	<u>16,051,021</u>
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Total Assets \$ 21,713,451

LIABILITIES

Current Liabilities

Accounts payable	\$ 550,842
Accrued payroll	1,954
Accrued vacation pay	71,466
Accrued interest payable	75,348
Deposits payable	33,701
Due to other funds	13,095
General obligation bonds - current	<u>287,019</u>

Total current liabilities 1,033,425

Noncurrent Liabilities

General obligation bonds payable	<u>7,238,154</u>
----------------------------------	------------------

Total Liabilities 8,271,579

NET ASSETS

Investment in capital assets, net of related debt	8,525,848
Unrestricted	<u>4,916,024</u>

Total Net Assets 13,441,872

Total Liabilities and Net Assets \$ 21,713,451

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN FUND NET ASSETS
UTILITY FUND
Year Ended June 30, 2003

OPERATING REVENUES

Water and sewer services	\$ 3,893,026
Miscellaneous	2,632
Tap, connection and availability fees	<u>825,730</u>

Total Operating Revenues	<u>4,721,388</u>
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OPERATING EXPENSES

Salaries and wages	855,502
Fringe benefits	273,042
Contractual services	1,206,954
Other charges	1,159,028
Depreciation and amortization	<u>337,287</u>

Total Operating Expenses	<u>3,831,813</u>
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Operating Income	<u>889,575</u>
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NONOPERATING REVENUES (EXPENSES)

Interest earned	70,407
Interest expense	<u>(266,783)</u>

Total Nonoperating Revenues (Expenses)	<u>(196,376)</u>
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Net income	693,199
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NET ASSETS, Beginning	<u>12,748,673</u>
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NET ASSETS, Ending	<u><u>\$ 13,441,872</u></u>
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CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF CASH FLOWS
UTILITY FUND
Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 4,131,619
Miscellaneous receipts	2,632
Tap, connection and availability fees	826,684
Payments to suppliers	(2,391,962)
Payments to employees	(1,131,779)
	<u>(1,131,779)</u>

Net cash provided by operating activities:	<u>1,437,194</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from general obligation bonds	5,877,755
Principal payments on general obligation bonds	(6,052,942)
Deferred charges - bond issuance costs	(30,000)
Purchase of fixed assets	(1,008,324)
Interest paid on general obligation bonds	(266,783)
	<u>(266,783)</u>

Net cash used in capital and related financing activities:	<u>(1,480,294)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	70,407
Net investment purchases	(45,406)
	<u>(45,406)</u>

Net cash provided by investing activities:	<u>25,001</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,099)
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CASH AND CASH EQUIVALENTS

Beginning of year	<u>106,498</u>
End of year	<u><u>\$ 88,399</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY ACTIVITIES

Operating income	\$ 889,575
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	337,287
Changes in operating assets and liabilities:	
Receivables	238,593
Accounts payable	9,436
Due to other funds	8,856
Accrued payroll	1,954
Accrued vacation pay	(5,189)
Accrued interest payable	(44,272)
Customer deposits	954
	<u>954</u>

Net cash provided by operating activities:	<u><u>\$ 1,437,194</u></u>
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CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	<u>Totals</u>
ASSETS	
Cash and cash equivalents	\$ 137,254
Investments	6,984
Accounts receivable	<u>3,350</u>
Total Assets	<u><u>\$ 147,588</u></u>
LIABILITIES	
Accounts payable	\$ 2,719
Due to agency	<u>144,869</u>
Total Liabilities	<u><u>\$ 147,588</u></u>

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Williamsburg Regional Library				
Assets:				
Cash and cash equivalents	\$ 7,196	\$ 5,355,738	\$ 5,345,494	\$ 17,440
Liabilities:				
Due to agency	\$ 7,196	\$ 5,355,738	\$ 5,345,494	\$ 17,440
Williamsburg Tricentennial Fund				
Assets:				
Investments	\$ 5,304	\$ 80	\$ -	\$ 5,384
Liabilities:				
Due to agency	\$ 5,304	\$ 80	\$ -	\$ 5,384
Colonial CASA Fund				
Assets:				
Cash and cash equivalents	\$ 17,982	\$ 14,055	\$ -	\$ 32,037
Investments	-	1,600	-	1,600
Accounts receivable	13,135	-	9,785	3,350
Total assets	\$ 31,117	\$ 15,655	\$ 9,785	\$ 36,987
Liabilities:				
Accounts payable	\$ 1,181	\$ 740	\$ -	\$ 1,921
Due to agency	29,936	14,915	9,785	35,066
Total liabilities	\$ 31,117	\$ 15,655	\$ 9,785.00	\$ 36,987
Industrial Development Authority				
Assets:				
Cash and cash equivalents	\$ 66,214	\$ 11,105	\$ -	\$ 77,319
Liabilities:				
Due to agency	\$ 66,214	\$ 11,105	\$ -	\$ 77,319
Farmers' Market				
Assets:				
Cash and cash equivalents	\$ 5,757	\$ 4,701	\$ -	\$ 10,458
Liabilities:				
Accounts payable	\$ 246	\$ 552	\$ -	\$ 798
Due to agency	5,511	4,149	-	9,660
Due to agency	\$ 5,757	\$ 4,701	\$ -	\$ 10,458
Williamsburg Redevelopment and Housing Authority				
Assets:				
Cash and cash equivalents	\$ -	\$ 356,923	\$ 356,923	\$ -
Liabilities:				
Due to agency	\$ -	\$ 356,923	\$ 356,923	\$ -
Total - All Agency Funds				
Cash and cash equivalents	\$ 97,149	\$ 5,742,522	\$ 5,702,417	\$ 137,254
Investments	5,304	1,680	-	6,984
Accounts receivable	13,135	-	9,785	3,350
Total assets	\$ 115,588	\$ 5,744,202	\$ 5,712,202	\$ 147,588
Liabilities:				
Accounts payable	\$ 1,427	\$ 358,215	\$ 356,923	\$ 2,719
Due to agency	114,161	5,385,987	5,355,279	144,869
Total liabilities	\$ 115,588	\$ 5,744,202	\$ 5,712,202	\$ 147,588

The notes to financial statements are an integral part of this statement.

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGE
IN FUND NET ASSETS - BUDGET AND ACTUAL
UTILITY FUND
Year Ended June 30, 2003

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water and sewer services	\$ 3,951,000	\$ 3,893,026	\$ (57,974)
Miscellaneous	24,000	2,632	(21,368)
Tap, connection and availability fees	308,000	825,730	517,730
Total Operating Revenues	<u>4,283,000</u>	<u>4,721,388</u>	<u>438,388</u>
OPERATING EXPENSES			
Personal services	872,272	855,502	16,770
Fringe benefits	277,378	273,042	4,336
Contractual services	1,090,000	1,206,954	(116,954)
Other charges	3,466,570	1,159,028	2,307,542
Depreciation and amortization	330,000	337,287	(7,287)
Total Operating Expenses	<u>6,036,220</u>	<u>3,831,813</u>	<u>2,204,407</u>
Operating Income (Loss)	<u>(1,753,220)</u>	<u>889,575</u>	<u>2,642,795</u>
NONOPERATING REVENUES (EXPENSES)			
Interest earned	125,000	70,407	(54,593)
Interest expense	(329,184)	(266,783)	62,401
Total Nonoperating Revenues (Expenses)	<u>(204,184)</u>	<u>(196,376)</u>	<u>7,808</u>
Change in net assets	<u>(1,957,404)</u>	<u>693,199</u>	<u>2,650,603</u>
NET ASSETS, Beginning	<u>12,748,673</u>	<u>12,748,673</u>	<u>-</u>
Transfer	249,896	-	(249,896)
NET ASSETS, Ending	<u>\$ 11,041,165</u>	<u>\$ 13,441,872</u>	<u>\$ 2,400,707</u>

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Revenue from Local Sources				
General Property Taxes				
Real property taxes	\$ 5,120,000	\$ 5,120,000	\$ 5,523,130	\$ 403,130
Real and personal public service corporation property taxes	275,600	275,600	282,265	6,665
Personal property taxes	977,000	977,000	1,019,000	42,000
Mobile home taxes	3,000	3,000	3,321	321
Business property taxes	1,249,000	1,249,000	1,279,076	30,076
Penalties	34,000	34,000	68,639	34,639
Interest	25,000	25,000	35,236	10,236
Total General Property Taxes	7,683,600	7,683,600	8,210,667	527,067
Other Local Taxes				
Local sales and use taxes	3,925,000	3,925,000	3,781,232	(143,768)
Consumers' utility taxes	563,100	563,100	665,980	102,880
Business license taxes	1,622,000	1,622,000	1,641,721	19,721
Franchise license taxes	168,900	168,900	202,360	33,460
Bank stock taxes	155,000	155,000	140,880	(14,120)
Taxes on recordation and wills	100,000	100,000	131,173	31,173
Hotel and motel room taxes	4,075,000	4,075,000	3,974,894	(100,106)
Restaurant food taxes	5,440,000	5,440,000	5,244,106	(195,894)
Total Other Local Taxes	16,049,000	16,049,000	15,782,346	(266,654)
Permits, Privilege Fees and Regulatory Licenses				
Animal licenses	550	550	484	(66)
Permits and other licenses	171,195	171,195	212,134	40,939
Total Permits, Privilege Fees and Regulatory Licenses	171,745	171,745	212,618	40,873
Fines and Forfeitures	256,000	256,000	273,584	17,584
Revenue from Use of Money and Property				
Revenue from use of money	685,000	685,000	509,695	(175,305)
Revenue from use of property	172,200	172,200	245,278	73,078
Total Revenue from Use of Money and Property	857,200	857,200	754,973	(102,227)

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue from Local Sources (Concluded)				
Charges for Services				
Sheriff's fees	\$ 1,366	\$ 1,366	\$ 1,366	\$ -
Commonwealth Attorney's fees	500	500	534	34
Parks and recreation	304,700	304,700	297,674	(7,026)
Planning and community (development	45,300	45,300	45,774	474
Total Charges for Services	351,866	351,866	345,348	(6,518)
Miscellaneous revenue	712,424	712,424	782,549	70,125
Total Revenue from Local Sources	26,081,835	26,081,835	26,362,085	280,250
Revenue from the Commonwealth				
Noncategorical Aid				
ABC profits	14,534	14,534	14,518	(16)
Wine taxes	16,441	16,441	13,442	(2,999)
Rolling stock taxes	4,993	4,993	6,907	1,914
Rental car taxes	8,000	8,000	12,057	4,057
Grantor's tax	71,066	71,066	48,940	(22,126)
DJCP grants for law enforcement	314,953	314,953	305,013	(9,940)
Total Noncategorical Aid	429,987	429,987	400,877	(29,110)
Categorical Aid				
Shared expenses				
Commissioner of the Revenue	71,000	71,000	69,944	(1,056)
Treasurer	22,000	22,000	19,281	(2,719)
Medical Examiner	100	100	210	110
Registrar/Electoral Board	38,900	38,900	37,647	(1,253)
Total Shared Expenses	132,000	132,000	127,082	(4,918)
Education				
State sales tax	489,685	489,685	482,361	(7,324)

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue from the Commonwealth (Concluded)				
Other Categorical Aid				
Arts Commission	\$ 69,425	\$ 69,425	\$ 69,425	\$ -
Street and highway maintenance	1,037,193	1,037,193	1,082,951	45,758
Emergency services	5,500	5,500	5,559	59
Fire program fund	16,000	16,000	16,080	80
Police program fund	-	-	91,197	91,197
Litter prevention & recycling	5,100	5,100	4,784	(316)
Total Other Categorical Aid	1,133,218	1,133,218	1,269,996	136,778
Total Categorical Aid	1,754,903	1,754,903	1,879,439	124,536
Total Revenue from the Commonwealth	2,184,890	2,184,890	2,280,316	95,426
Revenue from the Federal Government				
COPS grant	25,000	25,000	25,738	738
Total Revenue from the Federal Government	25,000	25,000	25,738	738
Total Intergovernmental Revenue	2,209,890	2,209,890	2,306,054	96,164
Total Revenues	28,291,725	28,291,725	28,668,139	376,414
EXPENDITURES				
General Government Administration				
Legislative				
City Council	130,638	130,638	123,252	7,386
Clerk of Court	84,438	84,438	78,044	6,394
Total Legislative	215,076	215,076	201,296	13,780
General and Financial Administration				
City Manager	364,724	364,724	362,180	2,544
City Attorney	110,200	110,200	171,423	(61,223)
Commissioner of Revenue	163,321	163,321	154,568	8,753
Assessor	122,039	122,039	86,824	35,215
Treasurer	50,416	50,416	41,262	9,154
Finance	790,270	790,270	736,530	53,740
City Shop	185,986	185,986	184,124	1,862
Total General and Financial Administration	1,786,956	1,786,956	1,736,911	50,045

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
General Government Administration (Concluded)				
Board of Elections				
Electoral board and officials	\$ 15,070	\$ 15,070	\$ 14,451	\$ 619
Registrar	87,830	87,830	88,060	(230)
Total Board of Elections	102,900	102,900	102,511	389
Total General Government Administration	2,104,932	2,104,932	2,040,718	64,214
Judicial Administration				
Courts				
Courthouse	325,000	325,000	273,154	51,846
Total Judicial Administration	325,000	325,000	273,154	51,846
Public Safety				
Law Enforcement and Traffic Control	2,533,059	2,533,059	2,421,463	111,596
E-911	448,703	448,703	439,797	8,906
Fire and Rescue Services	2,262,601	2,262,601	2,216,034	46,567
Correction and Detention				
Regional jail	495,629	495,629	659,574	(163,945)
Juvenile detention commission	90,636	90,636	138,076	(47,440)
Group home commission	39,812	39,812	39,812	-
Total Correction and Detention	626,077	626,077	837,462	(211,385)
Inspections	282,190	282,190	277,662	4,528

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Public Safety (Concluded)				
Other Protection				
Animal Control	\$ 22,500	\$ 22,500	\$ 17,069	\$ 5,431
Medical Examiner	100	100	250	(150)
Emergency management	4,475	4,475	3,445	1,030
Total Other Protection	27,075	27,075	20,764	6,311
Total Public Safety	6,179,705	6,179,705	6,213,182	(33,477)
Public Works				
Maintenance of Highways, Streets, Bridges and Sidewalks				
General engineering	190,941	190,941	186,143	4,798
Highways, streets, bridges and sidewalks	1,391,052	1,391,052	1,026,148	364,904
Total Maintenance of Highways, Streets, Bridges and Sidewalks	1,581,993	1,581,993	1,212,291	369,702
Sanitation and Waste Removal				
Refuse collection	494,000	494,000	476,156	17,844
Total Sanitation and Waste Removal	494,000	494,000	476,156	17,844
Maintenance of General Buildings and Grounds				
Municipal complex - new	512,802	512,802	472,163	40,639
Rental properties	13,525	13,525	11,178	2,347
Information resources	268,300	268,300	250,568	17,732
Landscaping	450,480	450,480	430,916	19,564
Total Maintenance of General Buildings and Grounds	1,245,107	1,245,107	1,164,825	80,282
Total Public Works	3,321,100	3,321,100	2,853,272	467,828
Health and Welfare				
Health				
Local health department	197,083	197,083	196,150	933
Mosquito control	7,150	7,150	4,560	2,590
Total Health	204,233	204,233	200,710	3,523

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare (Concluded)				
Mental Health and Mental Retardation				
Colonial Services Board	\$ 182,745	\$ 182,745	\$ 178,592	\$ 4,153
Social Services				
Public Assistance	2,030	2,030	-	2,030
Transportation	3,500	3,500	2,308	1,192
Total Social Services	5,530	5,530	2,308	3,222
Total Health and Welfare	392,508	392,508	381,610	10,898
Education				
Administration of schools	8,643	8,643	5,661	2,982
Contributions to local school district	6,513,030	6,513,030	6,513,030	-
Total Education	6,521,673	6,521,673	6,518,691	2,982
Parks, Recreation and Cultural				
Parks and Recreation				
Administration	374,926	374,926	380,646	(5,720)
Parks supervision	159,469	159,469	152,450	7,019
Playgrounds	570,566	570,566	561,785	8,781
Cemeteries	44,563	44,563	42,224	2,339
Total Parks and Recreation	1,149,524	1,149,524	1,137,105	12,419
Regional Library	725,702	725,702	758,674	(32,972)
Total Parks, Recreation and Cultural	1,875,226	1,875,226	1,895,779	(20,553)
Community Development				
Planning and Community Development				
Planning	371,425	371,425	351,875	19,550
Community development	2,464,355	2,464,355	2,452,357	11,998
Total Planning and Community Development	2,835,780	2,835,780	2,804,232	31,548
Arts commission	128,850	128,850	128,568	282
Total Community Development	2,964,630	2,964,630	2,932,800	31,830

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONCLUDED)
GOVERNMENTAL FUND
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Nondepartmental	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 68,644</u>	<u>\$ 131,356</u>
Capital Projects	<u>13,154,993</u>	<u>16,054,993</u>	<u>7,582,378</u>	<u>8,472,615</u>
Debt Service				
Principal	908,000	908,000	908,000	-
Interest	<u>462,934</u>	<u>462,934</u>	<u>361,125</u>	<u>101,809</u>
Total Debt Service	<u>1,370,934</u>	<u>1,370,934</u>	<u>1,269,125</u>	<u>101,809</u>
Total Expenditures	<u>38,410,701</u>	<u>41,310,701</u>	<u>32,029,353</u>	<u>9,281,348</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(10,118,976)</u>	<u>(13,018,976)</u>	<u>(3,361,214)</u>	<u>9,657,762</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(442,386)	(442,386)	(328,808)	113,578
Sale of land	<u>-</u>	<u>-</u>	<u>123,329</u>	<u>123,329</u>
Total Other Financing Uses	<u>(442,386)</u>	<u>(442,386)</u>	<u>(205,479)</u>	<u>236,907</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(10,561,362)</u>	<u>(13,461,362)</u>	<u>(3,566,693)</u>	<u>9,894,669</u>
FUND BALANCE, Beginning	<u>14,121,381</u>	<u>14,121,381</u>	<u>25,927,029</u>	<u>11,805,648</u>
FUND BALANCE, Ending	<u><u>\$ 3,560,019</u></u>	<u><u>\$ 660,019</u></u>	<u><u>\$ 22,360,336</u></u>	<u><u>\$ 21,700,317</u></u>

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Williamsburg is a municipal corporation governed by an elected mayor and four-member council. The accompanying financial statements present the government and the entities for which the government is considered to be financially accountable.

Not included in the City's financial statements are certain entities created as separate governments under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by City Council. Specific information on the nature of the individual agencies and a description of their financial transactions affecting the City are provided in the following paragraphs:

1. Williamsburg Redevelopment and Housing Authority

The Authority is a public corporation that administers urban development projects and operates all public housing in the City. City Council selects the members of the Authority's board; however, the board designates its own management and has the responsibility for budget adoption and revision. The Authority's operating and capital expenditures, including debt service, are financed principally with federal funds and rentals. Separate financial statements are prepared and are available, which reflect the details of its operations.

2. City of Williamsburg – James City County Joint Public Schools

Under the terms of an agreement dated January 14, 1954, and subsequently revised, between the governing bodies and the school boards of the City of Williamsburg, Virginia and James City County, effective July 1, 1955, the two localities consolidated the operations of their schools. By agreement, last amended by resolution on October 12, 2001 defining the City and County share of the local contribution, the City's share of operational costs will be equivalent to the percentage of City students each year beginning July 1, 2002 times an add-on factor that varies by year as follows:

<u>Year</u>	<u>Factor</u>
FY 2003	1.38
FY 2004	1.33
FY 2005	1.28
FY 2006	1.23
FY 2007	1.18

The percentages used, considering the appropriate funding formula for fiscal years 2003 and 2002 are 11.63% and 12.8% respectively. Separate financial statements are prepared and are available, which reflect the details of its operations.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary financial information on the school operations as of June 30, 2003 is as follows:

Total assets	\$ 10,659,142
Liabilities	\$ 2,994,235
Fund equity and other credits	7,664,907
Total liabilities, fund equity and other credits	<u>\$ 10,659,142</u>
Revenues and other financing sources	\$ 73,675,456
Expenditures	<u>76,657,614</u>
Deficiency of revenues and other financing sources over expenditures	(982,158)
Fund balance, beginning	<u>3,976,393</u>
Fund balance, ending	<u>\$ 2,994,235</u>

General long-term debt of the joint school operations consists of liabilities for early retirement, compensated absences and obligations under capital leases. Each participating government is responsible for its own debt related to school properties.

3. Williamsburg Regional Library

The Library is a joint operation of the City of Williamsburg and James City County, under the latest contract dated January 14, 1999. It also receives funding from the State of Virginia, the federal government, York County, and private sources. Also, the Library's board is split between City and County appointees. The Library's management is also independent from City and County control. During the current fiscal year, the City contributed \$713,702 to the Library's operating budget, or 13.21% of its net appropriated support. Separate financial statements are prepared and are available, which reflect the details of its operations.

4. Other Agencies

Certain agencies and commissions service both the City of Williamsburg and surrounding localities. Board membership is allocated among the localities and their governing bodies make appointments. These agencies include: Hampton Roads Planning District Commission (HRPDC), Peninsula Alliance for Economic Development (PAED), Industrial Development Authority (IDA), the Colonial Health and Mental Retardation Services Board (Colonial Services Board), the Regional Jail, Shared Court Facility, Group Home Commission and the Middle Peninsula Juvenile Detention Commission.

B. Government-wide and fund financial statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds, the utility fund, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. The major individual governmental fund and major individual proprietary fund are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, room and meals taxes, sales and use taxes, other local taxes, shared expenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports only one major Governmental Fund - the General Fund. The General Fund is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports only one major Proprietary Fund - the Utility Fund. The Utility Fund accounts for the operations for sewer and water services for the City.

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City implemented the financial reporting requirements of GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* for fiscal year ended June 30, 2002.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for utility funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, State Treasurer's Local Government Investment Pool (LGIP) and the State non-arbitrage program.

Investments for the City are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds at the end of the fiscal year are referred to as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to \$282,387 at June 30, 2003.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes are based upon the rate levied by City Council multiplied by the taxable assessed value. The City Assessor, based on the fair market value on July 1 of the current fiscal year, determines assessed value of real estate annually. The Commissioner of Revenue with the use of National Automobile Dealers Association appraisal guides determines personal property values. Real estate taxes, levied July 1 (lien date), are billed semi-annually and are due December 1 and June 1 of each fiscal year. Personal property taxes, levied January 1, are billed annually and are due December 1. Tax rates for bills due December 1, 2002 and June 1, 2003, were \$0.54 per \$100 assessed value of real estate and \$3.50 per \$100 appraisal value for personal property. A 10% penalty or \$10, whichever is greater, is imposed on all delinquent taxes collected after the due dates. Interest is also imposed after the due dates at the rate of 10% annually.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings	40 years
Improvements other than buildings	20 years
Infrastructure	
Roads	30 years
Bridges and culverts	50 years
Water/sewer system	40 years
Equipment	3 - 10 years

4. Compensated Absences

Permanent full-time and permanent part-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The estimated current portion of the liability for vested vacation benefits attributable to the City's governmental funds is recorded as an expenditure and liability in the respective funds. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

5. Unbilled Revenue

The City records property taxes not collected within 45 days after year-end as deferred revenue. In addition, the City records the amount of accrued but unbilled revenue for the Utility Fund by prorating actual subsequent billings.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period incurred. The face amount of the debt issued is reported as an other financing source.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Pension Plan

The City's policy is to fund pension costs which consist of normal costs actuarially determined using entry age, normal cost calculations, and amortization of past service costs over forty years.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$5,195,406 difference are as follows:

Capital outlay	\$ 7,029,901
Depreciation expense	<u>1,834,495</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental Funds</i>	<u>\$ 5,195,406</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Concluded)

Another element of that reconciliation states that "the effect of various miscellaneous transactions involving capital assets (sales) is to decrease net assets." The details of this \$130,041 are as follows:

In the statement of activities, only the <i>gain</i> on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	\$ 263,463
The statement of activities reports capital assets acquired. However, governmental funds do not report these assets.	<u>133,041</u>
Net adjustment to decrease <i>net changes in fund balances – total Governmental funds</i> to arrive at <i>changes in net assets of governmental Funds</i>	<u>\$ 130,041</u>

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The difference is as follows:

The principal repayments on general obligation bonds represents the net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 908,000</u>
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Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$15,116 difference is as follows:

Compensated absences represents the <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental funds</i> .	<u>\$ 15,116</u>
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3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year for the General Fund and Utility Fund. Annual operating budgets are adopted by ordinances and resolutions passed by the City Council for those funds. Special revenue funds do not have an annual operating budget adopted by City Council except for operating transfers to the Virginia Public Assistance Fund. Those operating transfers augment the state approved budget for the Virginia Public Assistance Fund. Budgets are prepared on the same basis of accounting used for financial reporting purposes. The City does not integrate the use of encumbrance accounting in any of its funds. The original budgets and revisions, if any, are authorized at the department level by City Council.

The City Manager has the authority to transfer amounts within the departments, so long as the total appropriation for a department is not adjusted. Budget amounts reflected in the financial statements are as originally adopted. All appropriations, which are non-capital in nature, lapse at year-end to the extent that they have not been fully expended.

Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

B. Excess of Expenditures Over Budget

As per NCGAI 6, paragraph 4, the following are being disclosed:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Overexpended Amount</u>
City Attorney	\$ 110,200	\$ 171,423	\$ 61,223
Registrar	87,830	88,060	230
Regional Jail	495,629	659,574	163,945
Juvenile detention commission	90,636	138,076	47,440
Medical Examiner	100	250	150
Parks and Recreation Administration	374,926	380,646	5,720
Regional Library	725,702	758,674	32,972

4. CASH AND INVESTMENTS

A. Deposits

At year-end, the City's carrying amount of deposits with banks and savings institutions was \$1,365,945 and the bank balance was \$698,289. Of the bank balance, all was covered by federal depository insurance or collateralized in accordance with Virginia Security for Public Deposits Act.

Under the Act, all such deposits of the City are considered to be insured. Also, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the bank balance, none was uninsured and uncollateralized in banks or savings and loans not qualifying under the Act at June 30, 2003.

B. Investments

The City's investments are categorized into these three categories of credit risk. Category 1 includes investments that are insured or registered, or for securities held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or safekeeping agent in the City's name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or safekeeping agent, but not in the City's name.

Due to higher cash flows at certain times during the year, the government's investment in overnight repurchase agreements for which the underlying securities were held by the dealer increased significantly. As a result, the amounts that were in category 3 at those times were substantially higher than at year-end.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

4. CASH AND INVESTMENTS (Concluded)

At year-end, the City's cash and investment balances were as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
U.S. Government				
Securities	\$ 7,767,804	\$ -	\$ -	\$ 7,767,804
Corporate Bonds	4,052,661	-	-	4,052,661
Repurchase agreement	186,542	-	-	186,542
	<u>\$ 12,007,007</u>	<u>\$ -</u>	<u>\$ -</u>	<u>12,007,007</u>
Uncategorized Investments				
Local Government Investment Pool				9,396,122
State non-arbitrage program				<u>4,249,986</u>
Total Investments				<u>25,653,115</u>
Total cash and cash equivalents				<u>1,365,945</u>
Total cash and deposits				<u>\$ 27,019,060</u>
Reconciliation of deposits and investment to statement of net assets				
Cash and cash equivalents - Governmental activities				\$ 1,140,292
Cash and cash equivalents - Business-type activity				88,399
Cash and cash equivalents - Fiduciary funds				137,254
Investments - Governmental activities				20,813,586
Investments - Business-type activity				4,832,545
Investments - Fiduciary fund				<u>6,984</u>
Total				<u>\$ 27,019,060</u>

5. NOTE RECEIVABLE

The City has a non-interest bearing \$190,000 note receivable due from the Williamsburg Redevelopment and Housing Authority secured by a deed of trust. The note is due on the earlier of the sale of the secured land or May 2004.

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

1. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivables and Payables:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental	\$ 13,094	\$ -
Utility	-	13,094
	<u>\$ 13,094</u>	<u>\$ 13,094</u>

Transfers:

<u>Transfers Out:</u>	<u>General</u>	<u>Transfers In Nonmajor Governmental</u>	<u>Total</u>
General	<u>\$ 328,808</u>	<u>\$ 328,808</u>	<u>\$ -</u>

7. DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units at June 30, 2003, are as follows:

Commonwealth of Virginia	
Street and highway maintenance	\$ 270,738
Local sales tax	630,523
State sales tax	92,446
Rolling stock tax	6,907
Shared expenses	46,627
Other local taxes	16,913
Social services	<u>75,455</u>
	1,139,609
James City County	
Shared expenses	<u>50,759</u>
Total	<u>\$ 1,190,368</u>

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

Governmental activities:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 11,606,930	\$ 2,663,807	\$ 86,125	\$ 14,184,612
Construction in process	336,544	2,789,121	-	3,125,665
Total capital assets not being depreciated	11,943,474	5,452,928	86,125	17,310,277
Capital assets being depreciated:				
Buildings	22,118,475	66,950	-	22,185,425
Improvements other than buildings	7,395,150	86,833	-	7,481,983
Infrastructure	35,508,767	813,081	-	36,321,848
Equipment	4,635,248	640,245	177,338	5,098,155
Total capital assets being depreciated	69,657,640	1,607,109	177,338	71,087,411
Less accumulated depreciation for:				
Buildings	6,081,218	554,616	-	6,635,834
Improvements other than buildings	1,879,014	413,890	-	2,292,904
Infrastructure	20,069,568	500,777	-	20,570,345
Equipment	3,103,708	365,210	133,422	3,335,496
Total accumulated depreciation	31,133,508	1,834,493	133,422	32,834,579
Total capital assets being depreciated, net	38,524,132	(227,384)	43,916	38,252,832
Government activities capital assets, net	\$ 50,467,606	\$ 5,225,544	\$ 130,041	\$ 55,563,109

Business-type activity:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 7,914,779	\$ -	\$ -	\$ 7,914,779
Open easement	653,800	-	-	653,800
Total capital assets not being depreciated	8,568,579	-	-	8,570,391
Capital assets being depreciated:				
Buildings	9,320,970	182,000	-	9,502,970
Improvements other than buildings	5,089,254	775,537	-	5,864,791
Equipment	543,874	50,787	-	594,661
Total capital assets being depreciated	14,954,098	1,008,324	-	15,962,422

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

8. CAPITAL ASSETS (Concluded)

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Less accumulated depreciation for:				
Buildings	\$ 4,289,914	\$ 196,094	\$ -	\$ 4,486,008
Improvements other than buildings	3,501,069	65,659	-	3,566,728
Equipment	<u>356,628</u>	<u>70,617</u>	-	<u>427,245</u>
Total accumulated depreciation	<u>8,147,611</u>	<u>332,370</u>	<u>-</u>	<u>8,479,981</u>
 Total capital assets being depreciated, net	 <u>6,806,487</u>	 <u>675,954</u>	 <u>-</u>	 <u>7,480,630</u>
Business-type activity capital assets, net	<u>\$ 15,375,066</u>	<u>\$ 675,954</u>	<u>\$ -</u>	<u>\$ 16,051,021</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 717,723
Judicial administration	308,055
Public safety	118,337
Health and welfare	4,487
Highways and streets, including depreciation of general infrastructure assets	500,777
Parks and recreation	<u>185,114</u>
 Total depreciation expense – governmental activities	 <u>\$ 1,834,493</u>
 Business-type activities:	
Water and sewer	<u>\$ 332,370</u>

9. LONG-TERM DEBT OBLIGATIONS

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued was \$25,410,754. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

General obligation bonds currently outstanding are as follows:

Governmental activities:

The City authorized and issued a general obligation bond on November 1, 1996, for the purpose of a land purchase. This bond is payable in principal installments of \$388,000 plus interest at the rate of 4% per annum, payments due each June 30, beginning June 30, 1997, and ending June 30, 2006.

\$ 1,164,000

The City authorized and issued a \$4,500,000 note payable for the purpose of financing the construction of a parking garage. Interest at 2.44% is payable in semi-annual installments until the bond matures on January 14, 2004.

4,500,000

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

9. LONG TERM DEBT OBLIGATIONS (Continued)

The City authorized and issued a \$2,500,000 general obligation bond for the purpose of financing the construction of a parking garage. The bond bears interest at 4.55%. Interest is payable semi-annually and principal is to be repaid in fifteen annual installments beginning January 15, 2002.

\$ 2,380,000

The City authorized and issued a \$4,000,000 general obligation bond for the purpose of financing several public improvement projects payable in principal installments of \$66,666 plus interest at a variable rate equal to the London Interbank Offered Rate (LIBOR) minus 1.40%. Payments are due the first day of each March, June, September, and December through June 2012.

2,466,666

The City authorized and issued a \$2,000,000 general obligation bond in August 1997 for capital improvements. The bond is payable in quarterly principal installments of \$133,333 plus interest at a fixed rate of 4.94%. Payments are due the first day of each March, June, September, and December. Payments began December 1997 and end September 2012.

1,233,334

Total governmental activities \$ 11,744,000

Business-type activity:

General obligation bond for the purpose of re-financing another general obligation bond that was used for the acquisition of real estate for watershed protection in the Waller Mill Reservoir Watershed and to pay costs associated with the issuance of the bond. Principal is due January 2006. Interest is payable semi-annually at a fixed rate of 2.54%.

\$ 5,862,754

The City authorized and issued a \$2,000,000 general obligation bond in August 1997 for the purpose of improvements to the City's water filtration plant. The bond is payable in quarterly principal installments of \$133,333 plus interest at a fixed rate of 4.94%. Payments are due the first day of each March, June, September, and December. Payments began December 1997 and end September 2012.

1,233,334

The City purchased an open space conservation easement and a right of first refusal to purchase the property. The consideration is in the form of the City's nonnegotiable, unsecured, tax-exempt, general obligation bonds, payable in the principal amount of \$653,800, bearing interest at an annual rate of 4.00% with principal and interest paid monthly until August 2006.

429,085

Total business type activity \$ 7,525,173

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

9. LONG TERM DEBT OBLIGATIONS (Concluded)

Changes in long-term liabilities

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activity</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 5,413,000	\$ 382,664	\$ 287,019	\$ 225,712
2005	918,000	275,486	298,303	213,059
2006	923,000	236,040	6,081,556	200,229
2007	545,000	196,365	158,295	39,356
2008	550,000	171,843	133,333	32,645
2009 - 2018	3,395,000	581,305	566,667	63,886

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>
Governmental activities:				
General obligation bonds	\$ 12,652,000	\$ -	\$ 908,000	\$ 11,744,000
Compensated absences				
Due within one year	321,289	431,280	425,122	327,447
Due after one year	<u>162,043</u>	<u>49,880</u>	<u>34,764</u>	<u>177,159</u>
Governmental activities long-term obligations	<u>\$ 13,135,332</u>	<u>\$ 481,160</u>	<u>\$ 1,367,886</u>	<u>\$ 12,248,606</u>
Business-type activity:				
General obligation bonds	\$ 7,700,360	\$ 5,877,754	\$ 6,052,941	\$ 7,525,173
Compensated absences	<u>76,655</u>	<u>-</u>	<u>5,189</u>	<u>71,466</u>
Business-type activity long-term obligations	<u>\$ 7,777,015</u>	<u>\$ 5,877,754</u>	<u>\$ 6,058,130</u>	<u>\$ 7,596,639</u>

10. SURETY BONDS OF PRINCIPAL OFFICIALS

As of June 30, 2003, the City maintains surety bonds in the following amounts:

Fidelity and Deposit Company of Maryland

Philip F. Serra, Director of Finance	\$ 500,000
Judy Nightingale Fuqua, Commissioner of the Revenue	550,000
Betsy Woolridge, Clerk of Circuit Court	103,000
Robert Deeds, Sheriff	30,000
Employees of Constitutional officers – blanket bond	1,000,000
Police Department – blanket bond	100,000
All City of Williamsburg employees except Constitutional Officers and their subordinates and the Police Department	100,000

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

11. DEFINED BENEFIT PENSION PLAN

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The City has assumed this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal years ended June 30, 2003 was 10% of annual covered payroll.

C. Annual Pension Cost

For the fiscal year ended June 30, 2003, the City's annual pension cost of \$696,032 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

Three-Year Trend Information for the City of Williamsburg, Virginia

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2001	\$ 847,869	100%	\$ -
June 30, 2002	854,662	100%	-
June 30, 2003	696,032	100%	-

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

12. OTHER POSTEMPLOYMENT BENEFITS

The City provides assistance to certain retirees, who participate in outside non-employer qualified health insurance plans, in the form of a supplemental payment for the cost of health insurance coverage. The payments are made to retirees who participated in the City's health insurance plan for at least ten consecutive years and who had either a minimum of 15 years of service or are disabled. The monthly amount of the supplemental payment is equal to \$3 for each year of service and cannot exceed \$90 per month. The supplement stops upon the death of the retiree or upon termination of the outside health insurance coverage.

The retiree health insurance supplement program was adopted by City Council effective as of January 1, 2002. As of June 30, 2003, there were 20 retirees receiving supplemental payments. The City finances the program on a pay-as-you-go basis. Total payments during the year were \$17,388.

13. LITIGATION

The City, after reviewing with counsel all actions and proceedings against it, considers that aggregate liability or loss, if any, resulting there from will not be material.

14. CONTINGENT LIABILITIES

Federal programs in which the City participates were audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of Circular A-133, federal programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures in the opinion of management, any future disallowances of current grant expenditures would be immaterial.

15. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other local governments in Virginia to form the Virginia Municipal Liability Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The City pays annual premiums to the pool for its property, theft, auto liability, and general liability coverage. Settled claims for the City resulting from these risks have not exceeded insurance coverage for each of the past three years. There was no reduction in insurance coverage during fiscal year 2003.

The City is also a participating member in the Virginia Municipal Group Self Insurance Association. This non-profit entity provides workers' compensation coverage in compliance with the Virginia Workers' Compensation code. Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

15. RISK MANAGEMENT (Concluded)

In addition, the City provides various surety bond coverage as required under regulations and at industry recommended levels.

The City has chosen to retain the risk associated with the employee's health insurance plan. Risk is retained at 100% up to an individual stop loss of \$60,000 for individual claims paid during the contract year. Premiums are paid for all eligible full time employees to a claims administrator who processes all claims. Any excess above the amount of the incurred but not reported (IBNR) claims at the end of the year are returned to the City. As of June 30, 2003, this balance is \$274,509. The annual liability for claims costs, including IBNR claims, is estimated during the annual renewal process each contract year (July 1 through June 30). The estimated claims cost is based on the prior year's experience as well as industry trends.

Changes in balances of health insurance claims liabilities during the past three years are as follows:

	<u>Beginning Balance</u>	<u>Claims and Other Charges</u>	<u>Employer/ Employee Payments</u>	<u>Ending Balance</u>
2001	\$240,935	\$637,058	\$686,106	\$289,983
2002	\$289,983	\$740,191	\$738,923	\$288,715
2003	\$288,715	\$888,991	\$874,785	\$274,509

16. SUBSEQUENT EVENTS

On July 31, 2003 the City of Williamsburg purchased a 1.64 acre parcel of property located at 1440 Richmond Road for \$1.8 million, with \$500,000 cash payment at closing, and a \$1.3 million unsecured negotiable promissory note due January 1, 2008. The City will pay interest only of \$5,000/month until the note matures. The purpose of this acquisition is in keeping with plans for a Richmond Road entrance to the High Street retail development.

A major catastrophic event occurred on September 18, 2003 with the landfall of Hurricane Isabel on the east coast of the United States, including Virginia. The City experienced heavy winds during the storm, requiring extensive removal of debris from City streets and properties. This storm was declared a National as well as State emergency, and recovery efforts qualify for Federal and State funding. City costs related to this storm are expected to reach approximately \$1.1 million. The City has been informed by the Federal Emergency Management Agency (FEMA) that it qualifies for assistance at 75%, and initiated the emergency application process immediately after the storm. Additionally, the Commonwealth of Virginia Department of Emergency Management, coordinated with FEMA, will also provide assistance of 21% of storm-related costs to the City.

On October 9, 2003 City Council authorized the City Manager to finalize the refunding of the City's \$4.5 million General Obligation Series 2002 note. On October 10, 2003 the transaction was completed with the issuance of a \$4.5 million General Obligation Refunding Note, Series 2003 with 2-year maturity, and 1.63% interest rate.

